

A meeting of the Federal Reserve Board was held in Washington on Tuesday, July 25, 1933, at 11:15 a.m.

PRESENT: Mr. Black, Governor  
Mr. Hamlin  
Mr. Miller  
Mr. James  
Mr. Thomas  
Mr. Szymczak

Mr. Morrill, Secretary.

Governor Black reported that on Wednesday afternoon, July 19, 1933, he called at the President's office to inform him of operations of the Federal Reserve Bank of New York in line with his request that that bank earmark and if necessary export for two weeks up to \$20,000,000 of gold for the purpose of preventing the pound from going above 4.86; that he informed the President that the Federal Reserve Bank of New York had in this operation sold \$1,300,000 of sterling, that the desired effect had been obtained, and that the question now was whether the operation be reversed in view of the then present position of the pound; that the President said that he was now in accord with operations both ways -- that is, buying and/or selling -- provided that such operations during the two weeks period did not require an exportation of more than the \$20,000,000 of gold authorized to be earmarked and if necessary ultimately exported; that this decision was informally reported on that date to the members of the Board; and that the Federal Reserve Bank of New York was notified to proceed in accord with the President's statement. After making the foregoing report Governor Black stated that he had been advised that the Federal Reserve Bank of New York had sold sterling on last Wednesday to the extent of \$1,310,000 at \$4.86-1/4 and on Friday and Saturday had covered its sales of sterling by purchases of an equal amount at \$4.76; and that there had been no earmarking of gold on the bank's state-

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ments required as a result of these transactions.

Governor Black also reported discussions which had taken place between the Director of the Budget, Mr. Douglas, and himself, regarding the possibility of employment of Mr. Riefler of the Board's Division of Research and Statistics in the work of assembling and analyzing statistical information for the President's Executive Council and that Mr. Douglas had indicated the need on the part of the new organization for disinterested and competent assistance of the type which could be furnished by Mr. Riefler as a basis for the determination of a sound course of action.

After consideration, the Board authorized Governor Black to continue the discussions with power to take such action as he might find advisable in all the circumstances, either by the acceptance of Mr. Riefler's resignation with the understanding that when he completes the work desired of him he will be restored to his present position in the division of research and statistics, or by permitting Mr. Riefler to render the desired services without change of his present status on the payroll of the Federal Reserve Board; with the expectation that, of course, in the rendition of such services it would be definitely understood that he was in no way representing or authorized to express views on behalf of the Federal Reserve Board as to the matters covered by his services.

The Governor also reported that he had been advised by Dr. Burgess over the telephone this morning that it was the view of the Governors, as a result of a discussion at their separate session on Friday, July 21, following their meeting with the Federal Reserve Board, that, since the terms of section 10(g) of the Glass Bill set forth explicitly and in some detail the terms and conditions under which the Federal reserve banks may engage in foreign transactions, it would be desirable for the Board to issue a regulation simply quoting or paraphrasing this section of the law,

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with the understanding, of course, that such regulation would be subject to amendment or amplification if, in the light of experience, such action seemed advisable.

Mr. Szymczak reported that he and Mr. Miller had been advised that Mr. Simpson and Mr. Leavell, directors of the Federal Reserve Bank of Chicago, and Mr. Traylor, Member of the Federal Advisory Council from the Seventh Federal Reserve District, had been giving informal consideration to the question of finding a suitable successor for Governor McDougal; that the matter had been discussed by them with Mr. Lynn P. Talley, formerly Governor of the Federal Reserve Bank of Dallas and now Assistant to the Directors of the Reconstruction Finance Corporation; and that they had reached the conclusion that it would be desirable to employ Mr. Talley as Governor McDougal's successor. Mr. Szymczak stated that the proposal contemplated that Mr. Talley should enter upon his new duties October 15, 1933, but that Governor McDougal should be continued on the payroll on leave of absence until the end of this year. Mr. Szymczak also stated that consideration had been given to the question what salary should be paid Mr. Talley and that Messrs. Simpson, Leavell and Traylor had suggested \$40,000 per annum. After discussion it was expressed as the sense of the members of the Board present that in present circumstances it would be preferable if no change were made in the salary of the position of Governor of the Federal Reserve Bank of Chicago, which is \$35,000 per annum, the amount now being paid Governor McDougal; that there would be no objection to the continuance of Governor McDougal on the payroll until the end of the year at his present salary; and that further consideration should be given to the question what official titles, respectively, should be held by Governor McDougal and Mr. Talley

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during the period from October 15 to December 31, 1933. Mr. Miller and Mr. Szymczak were authorized to discuss these questions further with Mr. Simpson who had advised them of the plan.

Governor Black also reported that he had advised Governor Morgenthau of the Farm Credit Administration that the question which had been raised as to the possibility of purchase of new issues of Federal land bank bonds by the Federal reserve banks had been discussed with the Governors at their meeting in Washington on July 20 and 21, and that the conclusion had been reached by the Governors that it would be impracticable for the Federal reserve banks to make such purchases, it being pointed out that under the general powers of the Federal reserve banks their purchases would be limited to bonds having a maturity of not more than six months at time of purchase, and that such bonds, if purchased, would be idle assets because they could not be used as security either for Federal reserve notes or Federal reserve bank notes; and it being pointed out further that even if the desired purchases could be made under the authority of the so-called "Thomas Bill" the President had taken no action under that authority.

Governor Black added that Governor Hamilton had discussed with him the possibility that Federal reserve banks might discount livestock paper representing loans which had been made by Regional Agricultural Credit Corporations and, in this connection, reference was made to an inquiry which had been received from Governor McKinney on the same subject. Governor Black said that he had mentioned the matter to Governor Morgenthau of the Farm Credit Administration and that Governor Morgenthau said that he would look into the question.

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Governor Black also stated that Governor Harrison of the Federal Reserve Bank of New York had advised him of the receipt of a communication from Governor Norman of the Bank of England to the effect that he was contemplating a visit to this country in the near future and that he would like to see Governor Harrison during the visit; and that after discussing the matter with Governor Black, Governor Harrison had replied that he would be glad to see Governor Norman.

The Board then considered and acted upon the following matters:

Memorandum dated July 19, 1933, from Mr. Paulger, Chief of the Division of Examinations, recommending the appointment of Mr. Roger M. Calloway and his designation as a Federal reserve examiner with salary at the rate of \$4,800 per annum.

Mr. Calloway was appointed an examiner for all purposes of the Federal Reserve Act, as amended, and of all other acts of Congress pertaining to examinations made by, for, or under the direction of the Federal Reserve Board; and was designated as a Federal reserve examiner, with salary at the rate of \$4,800 per annum, all effective as of July 27, 1933, on which date he will take the oath of office.

Letter dated July 24, 1933, approved by seven members of the Board, to Mr. Stevens, Federal Reserve Agent at Chicago, referring to his letter of July 11 and the reports of indebtedness of officers and employees of the Federal reserve agent's department of the Federal Reserve Bank of Chicago and employees of the auditing department transmitted therewith. The letter stated that it is assumed that the information with respect to the employees of the auditing department has also been submitted to the board of directors of the bank in view of the fact that the auditing department reports directly to the Chairman of the board of directors; that among the

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statements are noted those of C. L. Pitman and B. K. Patterson of the bank examination department who, it appears, are indebted, among others, to member banks of the Federal Reserve System; that the Board feels that it is of especial importance that members of the bank examination department shall not be obligated to member banks of the Federal Reserve System, and in this connection notes that Mr. Pitman said that "Progress in liquidating above loans has been decidedly slow. Payments small and at infrequent intervals", while Mr. Patterson made no statement with respect to the liquidation of his indebtedness; that Mr. Pitman referred to one of these loans as having been made in part for investments; and that Mr. Patterson referred to the security for his indebtedness as including "Cashier's checks, stocks and bond". The letter also stated that the Board will appreciate it if the agent will advise fully as to the prospects of liquidation within a reasonable time of the indebtedness of both Mr. Pitman and Mr. Patterson; as to the exact character of the investments in the case of Mr. Pitman and the security in the case of Mr. Patterson, stating specifically whether either of these gentlemen owns any stocks of banking institutions, their affiliates or subsidiaries; and that it is noted that some of the other statements show indebtedness to member banks of the Federal Reserve System and that the Board assumes that the agent will advise it from time to time of the progress made in clearing up such indebtedness.

Approved.

Telegraphic reply to a letter dated July 20, 1933, from Mr. McClure, Chairman of the Federal Reserve Bank of Kansas City, advising that at the meeting of the board of directors of the bank on that date a resolution was adopted providing that, subject to the approval of the Federal Reserve

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Board, all salaries of present officers and employees of the Federal Reserve Bank of Kansas City and its branches, and the compensation of the bank's counsel, which were affected by the general salary reductions made as of January 1, 1933, be increased, effective July 1, 1933, by the amounts of such reductions; that the officers of the bank and branches survey the salaries of all employees hired as of January 1, 1933, or subsequent thereto, with a view to recommending proper adjustments in any of such salaries which may be clearly out of proportion with the salaries of other employees; and recommending to the Board that the salaries of the Federal reserve agent and the assistant Federal reserve agent be increased as of July 1, 1933, by the amounts of the reductions made as of January 1, 1933. The reply stated that the Board approves the salary payments involved in the action of the directors of the Kansas City bank in reestablishing, as of July 1, 1933, the salaries of officers and employees of the bank and branches which were in effect on December 31, 1932; that if adjustments in salaries of persons employed on or after January 1, 1933, are recommended by the officers in accordance with the action of the directors of the bank, only the adjusted salaries should be submitted to the Board for approval which are at rates in excess of the maximum rates for the respective grades under applicable provisions of the personnel classification plan or where employees occupy appraised positions. The reply also stated that the reductions in the salaries of the Federal reserve agent and the assistant Federal reserve agent, and members of the staff of the Federal reserve agent's department, which were made effective on January 1, 1933, are discontinued as of July 1, 1933.

Approved.

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Telegraphic reply to a telegram dated July 24, 1933, from Mr. Newton, Federal Reserve Agent at San Francisco, requesting approval by the Board of the temporary appointment of Mr. S. Zeno Varnes as an examiner in the Federal reserve agent's department of the bank, with salary at the rate of \$300 per month, effective August 1, 1933. The reply stated that the Board approves the appointment as requested.

Approved.

Bond in the amount of \$50,000, executed on July 21, 1933, by Mr. L. M. Clark, as Assistant Federal Reserve Agent at the Federal Reserve Bank of Atlanta.

Approved.

Reply on July 24, 1933, approved by seven members of the Board, to a letter dated July 13, 1933, from Assistant Federal Reserve Agent Young at Chicago, in which he advised that the Western State Bank, Cicero, Illinois, whose application for membership in the Federal Reserve System was approved by the Board on April 10, 1933, subject to certain conditions, was of the opinion that it could not comply with the conditions of membership prescribed and requested that the application be withdrawn and all papers incident thereto returned to the bank. The reply stated that, in accordance with the request of the Western State Bank, its application will be considered as having been withdrawn, but that, since the papers comprising an application for membership are considered a part of the permanent official files of the Federal Reserve Board, it is not possible to comply with the request that they be returned.

Approved.



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Letter to Mr. Case, Federal Reserve Agent at New York, referring to the analysis of the report of examination as of January 28, 1933, of the Clinton Trust Company, New York, New York, and requesting additional information with regard to certain matters referred to in the report.

Approved.

Reply on July 24, 1933, approved by seven members of the Board, to a letter dated July 11 from Mr. Wood, Federal Reserve Agent at St. Louis, with regard to the recommendation submitted by him under date of November 12, 1932, that a receiver be appointed for the First National Bank of Ripley, Tennessee, in order that the Federal reserve bank stock issued to the bank might be canceled. The reply stated that the office of the Comptroller of the Currency has informed the Board that, immediately after receiving the Board's letter of November 19, 1932, transmitting Mr. Wood's recommendation for the appointment of a receiver for the bank, a letter was written to the bank urging it to take the necessary steps to go into liquidation and calling its attention to the provision of law authorizing the Comptroller to appoint a receiver in the event that the bank did not go into liquidation; and that a number of subsequent letters have been sent to the bank on the same subject, the last one on July 11, 1933, in which letter the bank was informed of the procedure that it should take in order to go into liquidation. The reply also stated that a copy of Mr. Wood's letter of July 11, together with a copy of the Board's reply, was being referred to the Comptroller's office for such action as may be deemed advisable in view of all the circumstances involved.

Approved, together with a letter dated July 24, 1933, to the Comptroller of the Currency, in accordance therewith, also approved by seven members of the Board.

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Letter dated July 24, 1933, approved by seven members of the Board, to Mr. Peyton, Chairman of the Federal Reserve Bank of Minneapolis, stating that it is noted from his letter of July 10 that at the meeting of the board of directors on that date section 1 of Article II of the by-laws of the bank was amended to provide that the chairman of the board of directors also shall be chairman of the executive committee, and that section 3 of Article III was amended in accordance with the change in Article II.

Approved.

Letter dated July 25, 1933, approved by seven members of the Board, to Mr. Williams, Chairman of the Federal Reserve Bank of Cleveland, stating that the Board has noted in one of the Washington papers of July 19, 1933, a news item which came by Associated Press from Cleveland on July 18 relating to certain testimony in a hearing before a special banking committee of the State Senate of Ohio, in which special reference is made to loans of the Guardian Trust Company to Governor E. R. Fancher and former Federal Reserve Agent George DeCamp; that among other things was noted the statement that there was found on a loan card in the records of the Guardian Trust Company a notation by Vice-President A. B. Cook that "Because of Fancher's connection with the Federal reserve bank, we cannot press for payment"; and that it was also noted that the news item contained the statement that the indebtedness of Mr. Fancher was paid on February 10, 1933. The letter also stated that the Board has in mind the discussions which took place earlier this year concerning the indebtedness of Mr. Fancher and Mr. DeCamp and naturally the information as to the manner in which the indebtedness of Mr. Fancher was regarded by the trust company is disturbing, and that the Board

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would like to have copies of clippings from Cleveland papers showing the manner in which this matter was reported in the local papers and also to have the benefit of any comments which Mr. Williams may have to offer.

Approved.

Letters dated July 25, 1933, approved by seven members of the Board, to The Chase Bank, and the International Banking Corporation, both of New York City, advising that the cost of the examination of the New York Office, Mexico City and Paris Branches of The Chase Bank, and of the Barcelona and Madrid Branches of the International Banking Corporation, made by examiners of the Federal Reserve Board, was \$2,558.43 and \$1,611.41, respectively, and requesting that the institutions deposit the respective amounts in the Federal Reserve Bank of New York, with instructions to that bank to credit it to the Federal Reserve Bank of Richmond for the account of the Federal Reserve Board.

Approved.

Reply on July 22, 1933, approved by six members of the Board, to a letter dated July 11, 1933, from Mr. Walsh, Federal Reserve Agent at Dallas, requesting advice as to whether, under the provisions of section 9 of the Federal Reserve Act, as amended by section 5(c) of the Banking Act of 1933, it will be necessary for the Wharton Bank and Trust Company, Wharton, Texas, to obtain a report of condition from the Glen Flora State Bank, Glen Flora, Texas, which was placed in voluntary liquidation on January 31, 1933, pursuant to appropriate action by its stockholders, and to publish such report under the same conditions as govern its own condition report. The reply stated that it has been noted that the Texas statutes provide that,

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when the requisite number of shareholders of a State bank vote in favor of placing such bank in liquidation, the bank's directors must proceed forthwith to wind up the business of such corporation; that, in view of such provision, and of the advice that the Glen Flora State Bank is in course of voluntary liquidation and is not authorized to engage in any business except such as may be necessary or incidental to the winding up of its affairs, it is the opinion of the Board that the instant situation does not come within the purview of the Banking Act of 1933; and that accordingly it will be unnecessary for the Wharton Bank and Trust Company to obtain and publish a report of condition of the Glen Flora State Bank.

Approved.

Letter dated July 22, 1933, to the Comptroller of the Currency, approved by seven members of the Board, replying to Deputy Comptroller Awalt's memorandum dated June 29 requesting a ruling on the question whether a member bank, which has purchased certain assets from a conservator or receiver of a national bank, may lawfully pay interest on a deposit of funds representing the unexpended portion of the purchase price credited in a lump sum to the account of such conservator or receiver by the purchasing bank, pursuant to a provision in a contract between the parties. The reply stated that, since the exact effect of such a provision cannot be determined without reference to the other provisions of the contract in which it is incorporated, the Board must consider each such case with reference to the provisions of the particular contract, and cannot undertake to express an opinion which could be considered as applicable to all cases involving contracts containing such a provision. The reply referred

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to the provisions of section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, and stated that, in the instant case, it appears that the contract, which provided for the payment of interest by the bank on the "unexpended balance remaining in said lump sum credit", was entered into in good faith and was in force on June 16, 1933; that it is the valid obligation of the bank; that it is not subject to cancellation or modification at the option of the bank; and, accordingly, that interest may be paid on such deposit in accordance with the terms of such contract for the period provided for therein.

Approved.

Reply on July 22, 1933, approved by seven members of the Board, to a letter, addressed by Mr. W. A. Higbee, President of the Schuyler County Bank, Lancaster, Missouri, to the Comptroller of the Currency under date of June 23, and by him referred to the Board for reply, requesting advice as to the effective date of the amendments to the 10th paragraph of section 9 of the Federal Reserve Act contained in the Banking Act of 1933 and as to the capital which a new State bank located in a city with a population of 800 inhabitants would be required to have in order to be eligible for admission to membership in the Federal Reserve System. The reply stated that the amendments to the 10th paragraph of section 9 of the Federal Reserve Act, as amended by the Banking Act of 1933, became effective on June 16, 1933, and that, under the requirements of this provision of law, a state bank organized on or after June 16, 1933, in a place with a population of not exceeding 3,000 inhabitants is required to have a capital of \$50,000 in order to be eligible for membership in the Federal

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Reserve System, unless it is at the time entitled to the benefits of insurance under section 12B of the Federal Reserve Act, as amended, in which event it is eligible for membership in the Federal Reserve System if it has a capital of not less than \$25,000.

Approved.

Reply on July 22, 1933, approved by seven members of the Board, to a letter, addressed by Mr. Frederic J. Corbett, Corporation Counsel of the City of Hartford, Connecticut, to Senator Augustine Lonergan under date of July 13, 1933, and by him referred to the Board for reply, inquiring whether the Hartford National Bank & Trust Company may pay interest on deposits made by the City of Hartford which are payable on demand. The reply referred to the provisions of section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, and stated that, in accordance with such provisions and in the absence of a State law requiring such payment of interest, the Hartford National Bank & Trust Company may not pay interest on any deposit of such bank made by or on behalf of the City of Hartford which is payable on demand, unless the bank is obligated to do so under a valid and binding contract which was entered into in good faith and was in force on June 16, 1933.

Approved.

Report of Standing Committee dated July 25, 1933, recommending approval of the following change in stock at a Federal reserve bank:

<u>Application for SURRENDER of Stock:</u>	<u>Shares</u>	
<u>District No. 5.</u>		
Independence Trust Company, Charlotte, N. C.	900	900
(In process of liquidation)		

Approved.

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Thereupon the meeting adjourned.

Walter Merrill  
Secretary.

Approved:

E. R. Black  
Governor.